



**STADIUM AUTHORITY**

**STATE OF HAWAII**

(A Component Unit of the State of Hawaii)

Financial Statements

June 30, 2006

(With Independent Auditors' Report Thereon)

**STADIUM AUTHORITY**  
**STATE OF HAWAII**  
(A Component Unit of the State of Hawaii)  
Financial Statements  
June 30, 2006

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**SECTION I**  
**INTRODUCTION SECTION**



**KPMG LLP**  
PO Box 4150  
Honolulu, HI 96812-4150

October 6, 2006

The Board of Directors  
Stadium Authority  
State of Hawaii:

We have completed our audit of the financial statements of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, as of and for the year ended June 30, 2006, as listed in the table of contents. We transmit herewith our reports containing our opinion on those financial statements and our report on internal control over financial reporting and compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*.

## **AUDIT OBJECTIVES**

The objectives of the audit were as follows:

1. To provide an opinion on the fair presentation of the Authority's financial statements in accordance with U.S. generally accepted accounting principles.
2. To consider the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.
3. To perform tests of the Authority's compliance with laws, regulations, contracts, and grants that may have a direct and material effect on the determination of financial statement amounts.

## **SCOPE OF AUDIT**

The scope of our audit included:

1. We performed an audit of the Authority's financial statements as of and for the year ended June 30, 2006 in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.
2. As part of the audit of the Authority's financial statements, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes) and procurement rules, directives, and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also considered the Authority's system of internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

The Board of Directors  
Stadium Authority  
State of Hawaii  
October 6, 2006

## ORGANIZATION OF REPORT

This report has been organized into three sections as follows:

1. The Introduction Section describes briefly the objectives and scope of our audit and the organization and contents of this report.
2. The Financial Section includes management's discussion and analysis, and the Authority's financial statements and footnotes as of and for the year ended June 30, 2006, and our report thereon.
3. The Internal Control and Compliance Section contains our report on the Authority's internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

\* \* \* \* \*

We would like to take this opportunity to express our appreciation for the courtesy and assistance extended to us by the personnel of the Authority during the course of our audit. Should you wish to discuss any of the matters contained herein, we will be pleased to meet with you at your convenience.

Very truly yours,

KPMG LLP

**SECTION II**  
**FINANCIAL SECTION**



**KPMG LLP**  
PO Box 4150  
Honolulu, HI 96812-4150

## **Independent Auditors' Report**

The Board of Directors  
Stadium Authority  
State of Hawaii:

We have audited the accompanying financial statements of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Stadium Authority, State of Hawaii, as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2006, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Honolulu, Hawaii  
October 6, 2006



**STADIUM AUTHORITY**  
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Management's Discussion and Analysis  
June 30, 2006

As management of the Stadium Authority, State of Hawaii (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of Aloha Stadium as of and for the fiscal year ended June 30, 2006. This discussion and analysis is designed to assist the reader in focusing on the Authority's financial issues and activities to identify any significant changes in the Authority's financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the Authority's financial statements. The Authority's financial statements are comprised of four components: (1) statement of net assets; (2) statement of revenues, expenses, and change in net assets; (3) statement of cash flows; and (4) notes to financial statements.

The financial statements are designed to provide the reader with a broad overview of the Authority's finances in a manner similar to private sector business or a "net assets" bottom line approach. These statements include all assets and liabilities, using the full accrual basis of accounting. The difference between the two is reported as net assets. Revenues are recognized in the period earned and expenses are recognized in the period incurred. Thus, assets, liabilities, revenues, and expenses are reported in these statements for some items that will result in cash flows in future periods (e.g., uncollected rental receipts, earned but unused vacation leave, etc.). These financial statements only include the activities of the Authority.

***Statement of Net Assets***

The *Statement of Net Assets* presents all of the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator to determine whether the financial position of the Authority is improving or deteriorating.

***Statement of Revenues, Expenses, and Change in Net Assets***

The *Statement of Revenues, Expenses, and Change in Net Assets* presents information showing the Authority's revenues and expenses for the fiscal year. Functional activities are highlighted in this statement.

***Statement of Cash Flows***

The *Statement of Cash Flows* presents the increases and decreases in cash during the 12-month period of the fiscal year.

***Notes to Financial Statements***

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

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Management's Discussion and Analysis  
June 30, 2006

**CONDENSED FINANCIAL INFORMATION**

The following are summaries from the Authority's financial statements as of fiscal years ended June 30, 2006 and 2005 (in thousands):

	<u>2006</u>	<u>2005</u>
Net assets:		
Current and other assets	\$ 5,905	\$ 4,445
Capital assets	44,155	47,989
Total assets	<u>50,060</u>	<u>52,434</u>
Current liabilities	964	809
Other liabilities	340	372
Total liabilities	<u>1,304</u>	<u>1,181</u>
Invested in capital assets	44,155	47,989
Unrestricted	4,601	3,264
Total net assets	<u>\$ 48,756</u>	<u>\$ 51,253</u>
Change in net assets:		
Operating revenues:		
Rentals from attractions	\$ 5,096	\$ 4,410
Commissions from food and beverage concessionaire	1,471	1,536
Other	1,315	1,022
Total operating revenues	<u>7,882</u>	<u>6,968</u>
Operating expenses:		
Depreciation	(4,260)	(4,217)
Personnel services	(3,530)	(3,574)
Other	(2,860)	(2,890)
Total operating expenses	<u>(10,650)</u>	<u>(10,681)</u>
Operating loss	<u>(2,768)</u>	<u>(3,713)</u>
Nonoperating revenues – interest income	<u>151</u>	<u>47</u>
Loss before capital contributions and operating transfers out	(2,617)	(3,666)
Capital contributions	120	3,953
Transfers to the State General Fund	<u>—</u>	<u>(600)</u>
Change in net assets	(2,497)	(313)
Net assets at beginning of year	<u>51,253</u>	<u>51,566</u>
Net assets at end of year	<u>\$ 48,756</u>	<u>\$ 51,253</u>

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**FINANCIAL ANALYSIS**

*Current and other assets* increased by \$1,460,000 or 33%. The increase is primarily due to an increase in fees charged to vendors at the Aloha Stadium Swap Meet. Additional vendor fee increases will be phased in over a three-year period.

*Capital assets* decreased by \$3,834,000 or 8% from the previous fiscal year. The decrease is due to current year's depreciation expense of \$4,260,000. The Authority's investment in capital assets as of June 30, 2006 amounted to \$44,155,000 (net of accumulated depreciation of \$77,023,000). This investment in capital assets includes the Stadium structure, land and land improvements, construction in progress, and equipment, furniture, and fixtures.

Additional information on the Authority's capital assets can be found in footnote 4, Capital Assets, of the notes to financial statements.

*Current liabilities* increased by \$155,000 or 19%. The increase is primarily due to an amount owed to Hawaiian Telcom for the replacement of the Aloha Stadium telephone system.

*Net assets* decreased by \$2,497,000 or 5% due to current year's operating expenses exceeding current year's operating and nonoperating revenues and capital contributions. By far, the largest portion of the Authority's net assets (\$44,155,000 or 91%) reflects its investment in capital assets (e.g., land, buildings, and equipment). The Authority uses these capital assets to provide services to the customers of Aloha Stadium; consequently, these assets are not available for future spending.

The remaining balance of unrestricted net assets (\$4,601,000 or 9%) may be used to meet the Authority's ongoing obligations.

*Other income* increased by \$293,000 or 29%. The increase is primarily due to money received from the National Football League (NFL) for stadium improvements as a result of the Aloha Stadium License Agreement dated December 8, 2004, between the Hawaii Tourism Authority, the NFL, and the Authority.

*Nonoperating revenues* increased by \$104,000 or 221%. The increase is primarily due to an increase in interest income earned in the State of Hawaii investment pool.

*Transfers to the State General Fund* decreased \$600,000 or 100%. There were no transfers made to the State General Fund for fiscal year ended June 30, 2006.

*Capital contributions* decreased \$3,833,000 or 97%. Capital contributions for fiscal year ended June 30, 2005 included improvements to the lower level concourse of the stadium and to a portion of the lower level Halawa parking lot. Capital contributions for fiscal year ended June 30, 2006 included progress payments for improvements to the lower level concourse.

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June 30, 2006

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Authority's finances for all those interested in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Stadium Manager, Stadium Authority, P.O. Box 30666, Honolulu, Hawaii 96820-0666.

General information relating to the Authority and Aloha Stadium can be found at the Authority's Web site, <http://www.alohastadium.hawaii.gov>.

**STADIUM AUTHORITY**  
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Statement of Net Assets

June 30, 2006

**Assets**

Current assets:

Cash:

Cash in State Treasury	\$ 4,669,475
Cash in bank and on hand (notes 2 and 6)	<u>299,459</u>
	4,968,934

Receivables from concessionaire and other, net of allowance for doubtful accounts of \$103,750 (note 6)	<u>513,039</u>
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Total current assets	5,481,973
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Capital assets, net (note 4)	44,155,095
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Cash held by other state agency	<u>423,213</u>
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Total assets	<u><u>50,060,281</u></u>
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**Liabilities**

Current liabilities:

Vouchers payable	365,485
Accrued payroll	231,838
Accrued vacation – due within one year (note 5)	176,650
Deferred income (note 6)	89,975
Due to State General Fund for advances for Imprest Fund	30,000
Other (note 6)	<u>69,999</u>

Total current liabilities	963,947
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Accrued vacation – due in more than one year (note 5)	246,369
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Licensees' deposits (note 6)	<u>93,943</u>
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Total liabilities	<u><u>1,304,259</u></u>
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Commitments and contingencies (notes 5 and 7)

**Net Assets**

Invested in capital assets	44,155,095
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Unrestricted	<u>4,600,927</u>
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Total net assets	<u><u>\$ 48,756,022</u></u>
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See accompanying notes to financial statements.

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## Statement of Revenues, Expenses, and Change in Net Assets

Year ended June 30, 2006

Operating revenues:	
Rentals from attractions (note 9)	\$ 5,096,182
Commissions from food and beverage concessionaire	1,470,905
Parking	647,711
Advertising	275,524
Other	391,375
	<hr/>
	7,881,697
	<hr/>
Operating expenses:	
Depreciation (note 4)	4,260,082
Personnel services (note 5)	3,529,756
Utilities	864,030
Special fund assessments (note 8)	528,530
Repairs and maintenance	468,317
Security	282,426
Supplies	235,736
Professional services	138,340
Other	342,284
	<hr/>
	10,649,501
	<hr/>
Operating loss	(2,767,804)
Nonoperating revenues – interest income	151,084
	<hr/>
Loss before capital contributions	(2,616,720)
Capital contributions	119,612
	<hr/>
Change in net assets	(2,497,108)
Net assets at beginning of year	51,253,130
Net assets at end of year	\$ <hr/> <hr/> 48,756,022

See accompanying notes to financial statements.

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Statement of Cash Flows  
Year ended June 30, 2006

Cash flows from operating activities:	
Cash received from customers	\$ 7,750,651
Cash paid to suppliers	(2,594,942)
Cash paid to employees	(3,543,561)
	<hr/>
Net cash provided by operating activities	1,612,148
	<hr/>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(306,692)
Transfers from the State General Fund	425,000
Transfers to the State General Fund	(425,000)
	<hr/>
Net cash used in capital and related financing activities	(306,692)
	<hr/>
Cash flows provided by investing activities:	
Interest from investments	151,084
	<hr/>
Net increase in cash	1,456,540
	<hr/>
Cash at beginning of year (including \$235,537 of cash held by other state agency)	3,935,607
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Cash at end of year (including \$423,213 of cash held by other state agency)	\$ 5,392,147
	<hr/> <hr/>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (2,767,804)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	4,260,082
Increase in receivables	(3,171)
Increase (decrease) in liabilities:	
Vouchers payable	173,807
Accrued payroll	(3,513)
Deferred income	(24,125)
Accrued vacation	(10,292)
Licensees' deposits	(20,147)
Other	7,311
	<hr/>
Net cash provided by operating activities	\$ 1,612,148
	<hr/> <hr/>
Supplemental disclosure of noncash capital and related financing activities:	
Capital assets contributed	\$ 119,612

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2006

**(1) Financial Reporting Entity**

The Stadium Authority, State of Hawaii (the Authority), was established by Act 172, Session Laws of Hawaii (SLH) 1970, effective June 30, 1970, and was placed within the State of Hawaii, Department of Budget and Finance (B&F), for administrative purposes. Effective June 1, 1980, Act 302, SLH 1980 and Executive Order No. 80-5 dated June 20, 1980 transferred the administrative responsibility for the Authority from B&F to the State of Hawaii, Department of Accounting and General Services (DAGS).

The Authority, under the direction of a nine-member board, is responsible for the operation, management, and maintenance of Aloha Stadium, located in Honolulu, Hawaii. The Governor appoints the nine members. The president of the University of Hawaii and the superintendent of education are non-voting ex officio members.

The Authority is a component unit of the State of Hawaii. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which includes the Authority's financial activities.

**(2) Summary of Significant Accounting Policies**

The accounting policies of the Authority used in the accompanying financial statements conform to U.S. generally accepted accounting principles applicable to governments as prescribed by the Governmental Accounting Standards Board (GASB) through its statements and interpretations. The following is a summary of the more significant accounting policies.

**(a) Basis of Accounting**

The accounts of the Authority are reported on a flow of economic resources measurement focus using the accrual basis of accounting. Revenues are recognized in the period earned, and expenses are recognized in the period incurred.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations, management, and maintenance of the Aloha Stadium. The principal operating revenues are from rental charges and commissions from the concessionaire, while operating expenses include cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Authority has elected not to apply any Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989.



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Notes to Financial Statements

June 30, 2006

**(b) *Cash in State Treasury and Bank and Custodial Credit Risk***

Cash reported in the statement of net assets includes cash in the State Treasury and cash in two separate bank accounts.

The State maintains a cash pool that is used by various State departments and agencies including the Authority. The amount reported as cash in State Treasury on the accompanying statement of net assets reflects the Authority's relative position in the State's cash pool. For demand or checking accounts and time certificates of deposits, the State requires that the depository banks pledge collateral based on the daily available bank balances. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

The State Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The State Director of Finance may invest any monies of the State, which in the Director's judgment, are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions.

Information regarding the carrying amount and corresponding bank balances of the cash pool (which includes the Authority's "Cash in State Treasury" and "Cash held by other state agency") and collateralization of the cash pool balances, as well as custodial credit risk, interest rate risk, concentration of credit risk, and foreign currency risk, is included in the Comprehensive Annual Financial Report of the State (CAFR).

At June 30, 2006, the carrying value of the Authority's cash in bank balance was \$273,259 and the bank balance was \$277,284. Of the bank balance at June 30, 2006, \$177,284 was uninsured and uncollateralized. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority minimizes its custodial credit risk by placing deposits into multiple insured financial institutions.

**(c) *Capital Assets***

Capital assets acquired by purchase are recorded at cost. Donated capital assets are recorded at estimated fair market value at the date of acquisition.

Depreciation has been provided for the stadium structure and equipment over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Stadium structure	20 – 40 years
Equipment, furniture, and fixtures	5 – 15 years

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Notes to Financial Statements

June 30, 2006

The Authority's capitalization thresholds are \$100,000 for the stadium structure and \$5,000 for equipment. Maintenance, repairs, minor replacements, and renewals are charged to operations as incurred. Major replacements, renewals, and betterments are capitalized. Sales and retirements of depreciable property are recorded by removing the related cost and accumulated depreciation from the accounts. Gains or losses on sales and retirements of property are reflected in the statement of revenues, expenses, and change in net assets.

**(d) *Cash Held by Other State Agency***

Cash held by other state agency is reflected as other assets since it is not available to meet current obligations. This cash is used to purchase capital assets and for major repairs and maintenance expenses. Cash held by other state agency is classified as cash for cash flow reporting purposes.

**(e) *Net Assets***

Net assets are classified in the following components: invested in capital assets and unrestricted net assets. Invested in capital assets consists of capital assets, net of accumulated depreciation. Unrestricted net assets consist of all other net assets not included in invested in capital assets.

**(f) *Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(3) *Budgeting***

The Authority's operations are subject to a comprehensive budget. Estimated revenues and expenses are provided to B&F for accumulation with budgeted amounts of the other state departments and offices. Those accumulated estimated revenues and expenses are provided to the State legislature for approval. Once approved by the legislature, the estimates are provided to the Governor of the State for final approval. Budgeted revenues are estimates of rentals, commissions, and other revenues to be received during the year. Budgeted expenses are estimates of expenditures to be made.

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Notes to Financial Statements

June 30, 2006

**(4) Capital Assets**

At June 30, 2006, capital assets consisted of the following:

	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance at June 30, 2006</u>
Stadium structure	\$ 97,803,102	\$ —	\$ 111,072	\$ 97,914,174
Equipment, furniture, and fixtures	6,429,721	271,479	—	6,701,200
	<u>104,232,823</u>	<u>271,479</u>	<u>111,072</u>	<u>104,615,374</u>
Less accumulated depreciation for:				
Stadium structure	(61,777,040)	(3,898,643)	—	(65,675,683)
Equipment, furniture, and fixtures	<u>(5,985,531)</u>	<u>(361,439)</u>	<u>—</u>	<u>(6,346,970)</u>
Total accumulated depreciation	<u>(67,762,571)</u>	<u>(4,260,082)</u>	<u>—</u>	<u>(72,022,653)</u>
Total depreciable capital assets, net	36,470,252	(3,988,603)	111,072	32,592,721
Land and land improvements	11,518,621	—	—	11,518,621
Construction in progress	<u>—</u>	<u>154,825</u>	<u>(111,072)</u>	<u>43,753</u>
Total capital assets, net	<u>\$ 47,988,873</u>	<u>\$ (3,833,778)</u>	<u>\$ —</u>	<u>\$ 44,155,095</u>

Depreciation expense amounted to \$4,260,082 for the fiscal year ended June 30, 2006.

**(5) Employee Benefits**

**(a) *Employees' Retirement System of the State of Hawaii***

All eligible employees of the Authority are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (the ERS), a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

The ERS is comprised of a contributory retirement plan and a noncontributory retirement plan. Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a

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refund of employee contributions. All benefits vest after 5 and 10 years of credited service under the contributory and noncontributory options, respectively.

Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date and prior to January 1, 2003 is based on the three highest paid years of service, excluding the vacation payment. Effective January 1, 2003, the AFC is the highest three calendar years or highest five calendar years plus lump-sum vacation payment or, highest three school contract years, or last 36 credited months, or last 60 credited months plus lump-sum vacation payment.

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial accrued liability over the remaining period of 29 years from July 1, 2000.

The Authority's payroll for employees covered by the plan for the year ended June 30, 2006 was approximately \$1,440,278. The payroll for all the Authority's employees for the year was \$2,904,046. Contributions made to the ERS by the Authority for the years ended June 30, 2006, 2005, and 2004 were approximately \$233,272, \$164,000, and \$148,000, respectively, which are equal to their required contribution. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Authority.

The ERS issues a comprehensive annual financial report that includes financial statements and required supplementary information, which may be obtained from the following address:

Employees' Retirement System of the State of Hawaii  
201 Merchant Street, Suite 1400  
Honolulu, Hawaii 96813

**(b) *Postretirement Healthcare and Life Insurance Benefits***

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain healthcare and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the State pays the entire monthly healthcare premium for employees retiring with 10 or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than 10 years of credited service.

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For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium. For those retiring with over 25 years of service, the State pays the entire healthcare premium.

Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursement of the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis and are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. The Authority's General Fund share of the expense for postretirement healthcare and life insurance benefits for the year ended June 30, 2006 has not been separately computed and is not reflected in the Authority's financial statements.

Effective July 1, 2003, the Hawaii Employer-Union Health Benefit Trust Fund (EUTF) replaced the Hawaii Public Employees Health Fund under Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county employees, retirees, and their dependents.

**(c) *Deferred Compensation***

The State established a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code, which enables State employees to defer a portion of their compensation. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying financial statements.

**(d) *Accrued Vacation***

Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarters working days for each month of service up to 720 hours at calendar year end, and is convertible to pay upon termination of employment.

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The following is a summary of changes in accrued vacation payable during the fiscal year ended June 30, 2006:

Balance at June 30, 2005	\$	433,311
Additions		33,719
Deletions		<u>44,011</u>
Balance at June 30, 2006		423,019
Less current portion		<u>176,650</u>
	\$	<u><u>246,369</u></u>

**(e) Accrued Sick Leave**

Full-time employees are credited with sick leave at a rate of one and three-quarter days per month of service. Unused sick leave may be accumulated without limit but can be taken only in the event of illness and is not convertible to pay upon termination of employment. As such, no liability is recorded for accumulated unused sick leave. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave at June 30, 2006 amounted to \$1,174,964.

**(6) Stadium Special Account**

Contracts with licensees of the Authority and the related ticket sales are controlled in the "Stadium Special Account." This account's cash balance and liabilities to third parties, net of amounts owed to the Authority, are included in the accompanying statement of net assets and amounted to \$196,939 at June 30, 2006. The activity in the account is included in the accompanying statement of revenues, expenses, and change in net assets only as it relates to the Authority's rentals from attractions, expense reimbursements from users, and other miscellaneous transactions (i.e., excludes ticket sales proceeds held on behalf of the licensees).

**(7) Commitments and Contingencies**

The Authority is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the Authority's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State's General Fund. The State is self-insured for substantially all perils, including workers' compensation.

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**(8) Special Fund Assessments**

In accordance with the HRS, the Authority has been assessed amounts to support the State's central administrative services. The assessments are based upon a percentage of the Authority's estimated revenues and expenses for the fiscal year. Assessments amounted to \$528,530 for the fiscal year ended June 30, 2006.

**(9) Related-party Transactions**

The Authority has a contract with the University of Hawaii at Manoa Athletic Department (Athletic Department) for the rental of the Aloha Stadium for the 2005 University of Hawaii football season home games. Rental income is computed per each game as the greater of \$10,000 or 7½% of all ticket receipts. Rent received from the Athletic Department approximated \$313,000 for the fiscal year ended June 30, 2006.

**SECTION III**  
**INTERNAL CONTROL AND COMPLIANCE SECTION**





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**Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based  
on an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards***

The Board of Directors  
Stadium Authority  
State of Hawaii:

We have audited the financial statements of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated October 6, 2006.

This report is intended solely for the information and use of the board of directors and management of the Authority, and the State of Hawaii, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Honolulu, Hawaii  
October 6, 2006